UNITED STATES DISTRICT COURT, WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

BECKER BEN, Individually and on Behalf of All Others Similarly Situated, Plaintiff, v. FRONTIER FINANCIAL CORPORATION, PATRICK M. FAHEY, JOHN J. DICKSON, MICHAEL J. CLEMENTZ and CAROL E. WHEELER, Defendants.	No. **COMPLAINT FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS** JURY TRIAL DEMANDED

INTRODUCTION

1. This is a securities class action on behalf of all persons who purchased or otherwise acquired the common stock of Frontier Financial Corporation ("Frontier" or the "Company"), between July 22, 2008 and March 16, 2010, inclusive (the "Class Period"), against Frontier and certain of its officers and/or directors for violations of the Securities Exchange Act of 1934 (the "1934 Act").

2. Frontier is a Washington-based financial holding company providing financial services through its commercial bank subsidiary, Frontier Bank (the "Bank"), which provides various commercial banking services. The Bank primarily engages in generating deposits and originating loans.

3. During the Class Period, defendants issued materially false and misleading statements regarding the Company's business and financial results. Defendants engaged in improper behavior which harmed Frontier's investors by failing to disclose the extent of seriously delinquent commercial real estate loans and construction and land loans. The Company also failed to adequately and timely record losses for its impaired loans, causing its financial results and its Tier 1 capital ratio to be materially false. As a result of defendants' false and misleading statements, Frontier stock traded at artificially inflated prices during the Class Period, reaching a high of $186.00 per share on September 19, 2008.[1]

4. In July 2008, the Federal Deposit Insurance Corp ("FDIC") and the state of Washington's Department of Financial Institutions ("DFI") conducted an investigation into Frontier's banking practices. As a result of the investigation, the banking regulators cited Frontier with engaging in certain "unsafe and unsound" practices, including management that was detrimental to operations, a board that offered insufficient oversight, inadequate capital and loan reserves, a large number of poor quality loans and inadequate provision for liquidity.

5. In March 2009, Frontier entered into a cease-and-desist order with banking regulators and agreed to take certain corrective actions related to the findings of the July 2008 report by the FDIC and DFI.

6. Then on March 16, 2010, after the market closed, Frontier announced that it had received a Supervisory Prompt Corrective Action Directive from the FDIC. The FDIC warned that the Company was "critically undercapitalized" which could lead to Frontier being placed into conservatorship or receivership, raising doubt about the ability of the Company to continue as a going concern. Frontier further restated its previously announced fourth quarter and year

[1] On November 24, 2009, Frontier's Board of Directors approved of a one-for-ten reverse stock split of the Company's common stock. The plan was adopted in order for Frontier to regain compliance with NASDAQ listing requirements. The reverse stock split became effective on November 24, 2009. All share amounts and per-share prices have been adjusted for the November 2009 reverse stock split.

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end 2009 results as the FDIC determined that Frontier's loan loss provision and its valuation adjustment of other real estate owned were understated by $30 million and $3.5 million, respectively.

7. On this news, Frontier's stock dropped $1.35 per share to close at $2.89 per share on March 17, 2010, a one-day decline of nearly 32%, on volume of 710,400 shares.

8. The true facts, which were known by the defendants but concealed from the investing public during the Class Period, were as follows:

(a) Defendants failed to properly account for Frontier's real estate loans and construction and land development loans, failing to reflect impairment in the loans;

(b) Frontier had not adequately reserved for loan losses such that its financial statements were presented in violation of Generally Accepted Accounting Principles ("GAAP");

(c) Defendants failed to maintain proper internal controls related to Frontier's accounting for its loan loss reserves;

(d) Frontier had not adequately reserved for loan losses such that its Tier 1 capital was presented in violation of banking regulations; and

(e) The Company's capital base was not adequate enough to withstand the significant deterioration in the real estate markets and, as a result, Frontier's Tier 1 capital would fall to the level where the Company would be designated as "critically undercapitalized" under banking regulations, raising substantial doubts about Frontier's ability to continue as a going concern.

9. As a result of defendants' false statements, Frontier's stock price traded at inflated levels during the Class Period. However, after the above revelations seeped into the market, the Company's shares were hammered by massive sales, sending them down 98% from their Class Period high.

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JURISDICTION AND VENUE

10. Jurisdiction is conferred by §27 of the 1934 Act, 15 U.S.C. §78aa. The claims asserted herein arise under §§10(b) and 20(a) of the 1934 Act, 15 U.S.C. §78j(b) and 78t(a), and SEC Rule 10b-5, 17 C.F.R. §240.10b-5.

11. Venue is proper in this District pursuant to §27 of the 1934 Act. Many of the false and misleading statements were made in or issued from this District.

12. Frontier's principal executive offices are located at 332 S.W. Everett Mall Way, Everett, Washington.

PARTIES

13. Plaintiff Becker Ben purchased Frontier common stock as described in the attached certification and was damaged thereby.

14. Defendant Frontier Financial Corporation ("Frontier" or the "Company") operates as the holding company for the Bank, which provides various commercial banking services. Frontier offers financial services, including an insurance and investment center that markets annuities, life insurance products, and mutual funds to its customers and the general public; a trust department that offers an array of trust services; and a private banking department to provide personal service to high net worth customers. Frontier was founded in 1978 and is based in Everett, Washington.

15. Defendant Patrick M. Fahey ("Fahey") is, and at all relevant times was, Chairman of the Board and Chief Executive Officer ("CEO") of Frontier. On January 1, 2010, defendant Fahey assumed the roles held by then President of Frontier and CEO of the Bank, Michael J. Clementz.

16. Defendant John J. Dickson ("Dickson") was CEO of Frontier from January 2006 through November 2008 and was a director of Frontier and President of the Bank until he resigned in March 2010.

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17. Defendant Michael J. Clementz ("Clementz") was President of Frontier and CEO of the Bank from December 2008 until his retirement on December 31, 2009.

18. Defendant Carol E. Wheeler ("Wheeler") is, and at all relevant times was, Chief Financial Officer ("CFO"), Principal Accounting Officer and Secretary of Frontier.

19. Defendants Fahey, Dickson, Clementz and Wheeler (the "Individual Defendants"), because of their positions with the Company, possessed the power and authority to control the contents of Frontier's quarterly reports, press releases, and presentations to securities analysts, money and portfolio managers, and institutional investors, *i.e.*, the market. They were provided with copies of the Company's reports and press releases alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions with the Company, and their access to material non-public information available to them but not to the public, the Individual Defendants knew that the adverse facts specified herein had not been disclosed to and were being concealed from the public and that the positive representations being made were then materially false and misleading. The Individual Defendants are liable for the false statements pleaded herein.

FRAUDULENT SCHEME AND COURSE OF BUSINESS

20. Defendants are liable for: (i) making false statements; or (ii) failing to disclose adverse facts known to them about Frontier. Defendants' fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of Frontier common stock was a success, as it: (i) deceived the investing public regarding Frontier's prospects and business; (ii) artificially inflated the price of Frontier's common stock; and (iii) caused plaintiff and other members of the Class to purchase Frontier common stock at inflated prices.

CLASS ACTION ALLEGATIONS

21. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased or otherwise acquired Frontier

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common stock during the Class Period (the "Class"). Excluded from the Class are defendants and their families, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

22. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. Frontier has more than 4.7 million shares of stock outstanding, owned by hundreds if not thousands of persons.

23. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class which predominate over questions which may affect individual Class members include:

(a) whether the 1934 Act was violated by defendants;

(b) whether defendants omitted and/or misrepresented material facts;

(c) whether defendants' statements omitted material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading;

(d) whether defendants knew or deliberately disregarded that their statements were false and misleading;

(e) whether the price of Frontier common stock was artificially inflated; and

(f) the extent of damage sustained by Class members and the appropriate measure of damages.

24. Plaintiff's claims are typical of those of the Class because plaintiff and the Class sustained damages from defendants' wrongful conduct.

25. Plaintiff will adequately protect the interests of the Class and has retained counsel who are experienced in class action securities litigation. Plaintiff has no interests which conflict with those of the Class.

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26. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

BACKGROUND

27. Frontier is a U.S. based financial holding company. Frontier is principally engaged in offering banking services related to consumers and others. In addition to consumer oriented activities, the Company maintains a commercial lending program, servicing individuals and businesses in its principal market areas. Frontier is the holding company for the Bank through which it provides banking services under personal banking, business banking and wealth management services. It offers loans, accepts deposits and investment options. Frontier operates throughout the U.S. with a network of 51 offices. Frontier was founded in 1978 and is based in Everett, Washington.

DEFENDANTS' FALSE AND MISLEADING STATEMENTS ISSUED DURING THE CLASS PERIOD

28. On July 22, 2008, Frontier reported its second quarter 2008 financial results, in a release which stated in part:

> Frontier Financial Corporation today announced earnings for the three and six months ended June 30, 2008. For the three months ended June 30, 2008, net income totaled $2.1 million, a decrease of $16.1 million, or 88.6%, compared to net income of $18.2 million for the three months ended June 30, 2007. For the three months ended June 30, 2008, the provision for loan losses totaled $24.5 million, compared to $1.9 million for the three months ended June 30, 2007, an increase of $22.6 million. On a diluted per share basis, second quarter 2008 net income was $0.04 per share, compared to $0.40 per share for the second quarter 2007.
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> For the six months ended June 30, 2008, net income totaled $17.6 million, compared to net income of $35.7 million for the six months ended June 30, 2007, a decrease of $18.1 million, or 50.8%. The decrease in net income is primarily attributable to the $30.2 million increase in the provision for loan losses. On a diluted per share basis, net income for the six months ended June 30, 2008, was $0.37 per share, compared to $0.78 per share for the six months ended June 30, 2007.
>
> John J. Dickson, President and CEO of Frontier Financial Corporation, said, "In the 30 year history of the Bank, we have had to work through some very tough business cycles. And I'm sure we'll look back at this cycle as one of the most daunting. With that said, we have a team of seasoned bankers with the

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expertise, and work ethic, we'll need to successfully navigate through these challenging times."

* * *

Review of Financial Condition

General

At June 30, 2008, total assets were $4.16 billion and deposits totaled $3.30 billion. This compares to total assets of $4.00 billion and deposits of $2.94 billion at December 31, 2007, and total assets of $3.58 billion and deposits of $2.83 billion at June 30, 2007. Net loans of $3.73 billion at June 30, 2008, reflect an increase of 4.8% from December 31, 2007, and an increase of 18.3% from June 30, 2007.

Loans

At June 30, 2008, total loans, including loans held for resale, were $3.81 billion, compared to $3.61 billion at December 31, 2007, and $3.19 billion at June 30, 2007.

For the six months ended June 30, 2008, new loan originations totaled $583.7 million, compared to $901.0 million for the six months ended June 30, 2007, a decrease of 35.2%. New loan originations for the second quarter 2008, were $296.6 million, compared to $642.7 million for the second quarter 2007, representing a 53.8% decrease.

Lyle E. Ryan, President of Frontier Bank, stated, "***Despite the slower construction and land development loan originations, we were once again pleased with the loan growth in our other loan products***."

Allowance for Loan Losses

The total allowance for loan losses was $78.7 million, or 2.07%, of total loans outstanding at June 30, 2008, compared to $54.0 million, or 1.49%, at December 31, 2007, and $42.8 million, or 1.34%, at June 30, 2007. The allowance for loan losses, including the reclassified allocation for undisbursed loans of $2.9 million, would amount to a total allowance of $81.6 million, or 2.14%, of total loans outstanding as of June 30, 2008. For the quarter ended June 30, 2008, net loan charge-offs were $6.5 million, or 0.16%, of average quarterly loans. This compares to net loan charge-offs of $593 thousand, or 0.02%, of average loans for the quarter ended December 31, 2007, and $285 thousand, or 0.01%, of average loans for the quarter ended June 30, 2007. "***With total reserves for loan losses of $81.6 million, including the reserve for undisbursed, and tangible capital of over $380 million, we have over $460 million to absorb any losses that may arise due to market uncertainties," said Rob Robinson, Chief Credit Officer of Frontier Bank***.

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Credit Quality

At June 30, 2008, nonperforming assets were 2.97% of total assets, compared to 0.97% at March 31, 2008, 0.53% at December 31, 2007, and 0.31% at June 30, 2007. Nonaccruing loans were $119.9 million at June 30, 2008, up from $38.8 million at March 31, 2008, $20.9 million at December 31, 2007, and $11.0 million at June 30, 2007.

* * *

Liquidity

Liquidity management involves the ability to meet the cash flow requirements of customers who may be either depositors wanting to withdraw funds, or customers who have credit needs. Management has the ability to access many sources of liquidity, such as the sale of AFS securities, additional borrowings from the FHLB, borrowings from the Federal Reserve Bank, brokered deposits or additional borrowings at correspondent banks. At June 30, 2008, we had $737.0 million of total liquidity available. We have a policy that liquidity to total assets of 12.5% be maintained as a minimum. At June 30, 2008, liquidity to total assets was 18.3%.

Subsequent to June 30, 2008, the Bank obtained approval from the Federal Reserve Bank to access additional borrowings, secured by valid residential construction loans as collateral, through their Borrower-in-Custody ("BIC") Program. This brings available liquidity, including borrowings, to over $1.0 billion.

Capital

Management constantly monitors the level of capital, considering, among other things, our present and anticipated needs, current market conditions and other relevant factors, including regulatory requirements, which may necessitate changes in the level of capital. Total capital at June 30, 2008, was $462.2 million, compared to $459.6 million at December 31, 2007, and $381.7 million at June 30, 2007.

During the first six months of 2008, we paid cash dividends totaling $16.8 million, compared to $14.3 million for the first six months of 2007. In a previously announced press release, the Board of Directors declared a $0.06 per share third quarter cash dividend to shareowners of record as of July 8, 2008, and payable on July 22, 2008. This was the first time in 34 consecutive quarters that the cash dividend was not increased. The decision to reduce the quarterly cash dividend came as a result of our concern over the continuing deterioration in the housing market and the impact on many of our borrowers. In addition, capital preservation was also a contributing factor in reducing the quarterly cash dividend.

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Regulatory capital ratios as of June 30, 2008, were as follows:

	Tier I (Core) Capital	Tier 2 (Total) Capital	Leverage Capital
Actual at June 30, 2008	9.96%	11.22%	9.69%
Regulatory minimum ratio for "well capitalized" purposes	6.00%	10.00%	5.00%

It is our policy that capital be maintained above the point where, for regulatory purposes, it would continue to be classified as "well capitalized." As of June 30, 2008, we are in compliance with that policy.

29. On September 18, 2008, Frontier filed a Form 8-K with the SEC, which stated in part:

Item 2.06 Material Impairments.

The U.S. Treasury recently announced a plan to place the Federal Home Loan Mortgage Corporation ("Freddie Mac") and the Federal National Mortgage Association ("Fannie Mae") into conservatorship, under the authority of the Federal House Finance Agency. As of June 30, 2008, Frontier Financial Corporation ("Frontier") owned preferred securities issued by Fannie Mae ($1.8 million book value) and Freddie Mac ($3.1 million book value) with a combined book value of $4.9 million. By September 8, 2008, the fair value of these securities had declined to approximately $0.3 million. Based on these developments, Frontier expects to record a noncash other-than-temporary impairment charge of approximately $4.9 million (pretax) to its income statement on these investments for the quarter ending September 30, 2008. In addition, Frontier will continue to analyze four securities in the related financial services industries with a book value of $3.5 million for impairment prior to September 30, 2008. Frontier will continue to evaluate its investment portfolio and will make a final determination of the impairment during the preparation of its financial statements for the quarter ending September 30, 2008. Frontier and its subsidiary, Frontier Bank, anticipate that they will continue to exceed all capital levels necessary to remain "well-capitalized" under regulatory guidelines at quarter-end.

30. On October 23, 2008, Frontier reported its third quarter 2008 financial results, in a release which stated in part:

Frontier Financial Corporation today announced results for the three and nine months ended September 30, 2008. For the three months ended September 30, 2008, the Corporation reported a net loss of $17.8 million. Contributing to this loss was a $42.1 million provision for loan losses, a $6.4 million loss on other than temporarily impaired securities and a $1.0 millon loss on the sale of a security. On a diluted per share basis, the third quarter 2008 net loss was ($0.38) per share, compared to $0.46 per share for the third quarter 2007.

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For the nine months ended September 30, 2008, net loss totaled $221 thousand, compared to net income of $55.9 million for the nine months ended September 30, 2007. The decrease in net income is primarily attributable to the $70.2 million increase in the provision for loan losses for the period. On a diluted per share basis, net loss for the nine months ended September 30, 2008, was ($0.00) per share, compared to $1.23 per share for the nine months ended September 30, 2007.

John J. Dickson, President and CEO of Frontier Financial Corporation, said, "The uncertainties in the economy and the housing market in the Pacific Northwest have created some challenging times for Frontier Bank and our borrowers. ***Although the economy in our area remains in better shape than other parts of the country, we continued to build our reserves for future loan losses based on this uncertainty, resulting in a total reserve (including reserves for undisbursed loans) of $109.5 million or 2.86% of total loans. At the end of September, Frontier remained well capitalized for regulatory capital purposes and maintained strong liquidity***. In addition, we were pleased with our strong growth in deposits and noninterest income."

Due to the downturn in the economy and the net losses sustained for the three and nine months ended September 30, 2008, the company is focusing its near term strategies on improving asset quality, capital preservation, expense reductions and deposit growth. During the quarter, we have expanded our special assets group from 5 to 22 individuals, all from within the company, to focus on reducing nonperforming assets. We are considering all of our options to maintain and grow our capital ratios. We will continue to focus on deposit growth to add to our already strong liquidity base. In addition, certain expense reduction measures will take effect immediately. . . .

Review of Financial Condition

General

At September 30, 2008, total assets were $4.24 billion and deposits totaled $3.40 billion. This compares to total assets of $4.00 billion and deposits of $2.94 billion at December 31, 2007, and total assets of $3.58 billion and deposits of $2.82 billion at September 30, 2007. Net loans of $3.73 billion at September 30, 2008, reflect an increase of 4.7% from December 31, 2007, and an increase of 13.8% from September 30, 2007. However, net loans decreased by $3.1 million since June 30, 2008.

Loans

At September 30, 2008, total loans, including loans held for resale, were $3.83 billion, compared to $3.61 billion at December 31, 2007, and $3.32 billion at September 30, 2007.

Despite the increase in total loans, new loan originations for the nine months ended September 30, 2008, totaled $759.3 million, compared to $1.50 billion for the nine months ended September 30, 2007, a decrease of $740.7 million, or 49.3%. New loan originations for the third quarter 2008, were $175.6

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million, compared to $364.3 million for the third quarter 2007, representing a decrease of $188.7 million, or 51.8%.

At September 30, 2008, total undisbursed commitments to lend were $650.8 million, compared to $873.2 million at December 31, 2007, and $997.4 million at September 30, 2007.

Lyle E. Ryan, President of Frontier Bank stated, ***"The reduction in loan originations and loan growth in the third quarter reflects our strategy of reducing our exposure to residential construction and limit our loan growth in order to preserve capital. We will continue to evaluate balance sheet strategies in the fourth quarter in order to maintain our well capitalized status***."

Allowance for Loan Losses

The total allowance for loan losses was $106.6 million, or 2.78%, of total loans outstanding at September 30, 2008, compared to $54.0 million, or 1.49%, at December 31, 2007, and $45.1 million, or 1.36%, at September 30, 2007. The allowance for loan losses, including the reclassified allocation for undisbursed loans of $2.8 million, would amount to a total allowance of $109.5 million, or 2.86%, of total loans outstanding as of September 30, 2008. For the quarter ended September 30, 2008, net loan charge-offs were $14.3 million, or 0.37%, of average quarterly loans. This compares to net loan charge-offs of $594 thousand, or 0.02%, of average loans for the quarter ended December 31, 2007, and $326 thousand, or 0.01%, of average loans for the quarter ended September 30, 2007.

Credit Quality

At September 30, 2008, nonperforming assets were 4.92% of total assets, compared to 2.97% at June 30, 2008, 0.53% at December 31, 2007, and 0.35% at September 30, 2007. Nonaccruing loans were $205.2 million at September 30, 2008, up from $119.9 million at June 30, 2008, $20.9 million at December 31, 2007, and $11.3 million at September 30, 2007.

* * *

Liquidity

Liquidity management involves the ability to meet the cash flow requirements of customers who may be either depositors wanting to withdraw funds or customers who have credit needs. Management has the ability to access many sources of liquidity, such as the sale of available for sale securities, additional borrowings from the FHLB, and borrowings from the Federal Reserve Bank, wholesale deposits or additional borrowings at correspondent banks. At September 30, 2008, we had $1.17 billion of total liquidity available. We have a policy that liquidity to total assets of 12.5% be maintained as a minimum. At September 30, 2008, liquidity to total assets was 27.5%.

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Capital

Management constantly monitors the level of capital, considering, among other things, our present and anticipated needs, current market conditions and other relevant factors, including regulatory requirements, which may necessitate changes in the level of capital. Total capital at September 30, 2008, was $443.7 million, compared to $459.6 million at December 31, 2007, and $398.1 million at September 30, 2007.

During the first nine months of 2008, we paid cash dividends totaling $19.6 million, compared to $22.6 million for the first nine months of 2007. In a previously announced press release, the Board of Directors declared a $0.06 per share quarterly cash dividend to shareowners of record as of October 7, 2008, and payable on October 21, 2008. Last quarter, the decision to reduce the quarterly cash dividend to $0.06 per share came as a result of our concern over the continuing deterioration in the housing market and the need to preserve capital.

Consolidated regulatory capital ratios as of September 30, 2008, were as follows:

	Tier I (Core) Capital	**Tier 2 (Total) Capital**	**Leverage Capital**
Actual at September 30, 2008	9.48%	10.75%	8.88%
Regulatory minimum ratio for "well capitalized" purposes	6.00%	10.00%	5.00%

It is our policy that capital be maintained above the point where, for regulatory purposes, it would continue to be classified as "well capitalized." As of September 30, 2008, we are in compliance with that policy.

31. After this news, Frontier's stock dropped $6.10 per share, to close at $68.00 on October 24, 2008, a one day decline of 8%, on volume of 94,000 shares.

32. Thereafter, Frontier's stock continued to plummet, dropping $15.20 per share on November 10, 2008 from $57.50 per share on November 7, 2008 – a decline of over 26% on volume of 72,000 shares.

33. On November 12, 2008, Frontier issued a press release entitled "Frontier Financial Corporation Announces Status of Treasury Capital Purchase Program Application," which stated in part:

Frontier Financial Corporation, the financial holding company for Frontier Bank, indicated they have filed an application for the Capital Purchase Program announced by the Treasury. The deadline to file the application is November 14,

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> 2008. At this time, Frontier's application has neither been denied nor approved by their federal regulators or the Treasury.
>
> "The steep drop in our stock price the last two days is partially due to persistent rumors that our Capital Purchase Program application had been denied by our regulators. Our application is being processed and they have neither approved nor denied it. The regulators face a monumental task of addressing the applications for the potentially thousands of banks in the country which have not received a response to their application. The timing on which we will receive an answer on our application is undetermined at this time," said John Dickson, President and CEO.
>
> In addition, Dickson indicated Frontier will continue to participate in the Temporary Liquidity Guarantee Program, which allows for unlimited FDIC Insurance coverage on all noninterest bearing checking accounts through December 31, 2009. This program was announced October 14, 2008 to enhance depositor confidence in the stability of the financial system. Banks will be included in the program unless they chose to opt-out. Prior to the announcement of this program, the Emergency Economic Recovery Act of 2008 was passed which included the increase in the basic FDIC Insurance coverage per depositor from $100,000 to $250,000 through December 31, 2009.

34. On January 29, 2009, Frontier reported its fourth quarter and year end 2008 financial results, in a release which stated in part:

> Frontier Financial Corporation today announced results for the three months and year ended December 31, 2008. For the three months ended December 31, 2008, the Corporation reported a net loss of $89.5 million, or ($1.90) per diluted share, compared to net income of $18.0 million, or $0.40 per diluted share, for the three months ended December 31, 2007. Contributing to the fourth quarter 2008 net loss was a $77.1 million noncash charge related to the impairment of goodwill and a $44.4 million provision for loan losses. The $77.1 million goodwill impairment represents the complete write-off of goodwill recorded in prior acquisitions. The impairment of goodwill does not impact liquidity, operations, tangible capital or the Corporation's capital ratios.
>
> For the year ended December 31, 2008, net loss totaled $89.7 million, compared to net income of $73.9 million for the year ended December 31, 2007. The decrease in net income for the period is primarily attributable to the $108.6 million increase in the provision for loan losses and a $77.1 million noncash goodwill impairment charge. On a diluted per share basis, net loss for the year ended December 31, 2008, was ($1.91) per share, compared to net income of $1.62 per share for the year ended December 31, 2007.
>
> The Corporation's net operating loss was $16.7 million, or ($0.35) per diluted share, for the fourth quarter 2008, which excludes the $77.1 million noncash goodwill impairment charge and the $3.1 million gain on sale of securities. This compared to a $7.7 million net operating loss, or ($0.16) per diluted share, for the third quarter 2008, excluding provision for loss on securities

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and loss on sale of securities totaling $7.5 million; and net operating income of $18.0 million, or $0.40 per diluted share, for the fourth quarter 2007.

The increase in the provision for loan losses for the three months and year ended December 31, 2008, is largely attributable to deteriorating credit quality in our real estate construction and land development portfolios. During the fourth quarter of 2008, nonperforming real estate construction and land development loans increased $183.0 million, to $359.0 million, compared to $176.0 million for the third quarter 2008. ***Management continues to recognize loan quality deterioration on a timely basis and aggressively address work out strategies. Net charge-offs related to these two portfolios also increased $25.6 million during the period***. For the year ended December 31, 2008, nonperforming real estate construction and land development loans increased $339.2 million and net charge-offs related to these portfolios increased $43.8 million, compared to the prior year ended.

During the fourth quarter, we recorded a noncash charge of $77.1 million, or ($1.64) per diluted share, related to the impairment of goodwill. This write down resulted from goodwill impairment testing that was performed at the end of the fourth quarter due to the quarterly decline in the stock price and the resulting difference between the market capitalization and book value of the Corporation. The results of the goodwill impairment testing demonstrated that the estimated fair value of the Corporation, or reporting unit, was less than the book value, resulting in full impairment.

Patrick M. Fahey, Chairman and CEO of Frontier Financial Corporation said, "The Board of Directors, in responding to these challenging and unprecedented times, has taken a number of corrective actions. The leadership of the Corporation was restructured to enhance the effort to rebalance the Bank to a portfolio with a much smaller concentration in real estate lending and an increase in commercial and industrial business and consumer loans."

In the third quarter, we announced strategies to improve asset quality, preserve capital, reduce expenses and grow core deposits. Our newly expanded special assets group continues to focus on reducing nonperforming assets. Management was successful in reducing construction and land development loans by $107.7 million in the fourth quarter of 2008 compared to third quarter. However, given the current economic conditions and the effects on the housing market, this process is going to take time. At December 31, 2008, nonperforming assets totaled $446.0 million, or 10.9% of total assets. This compares to nonperforming assets of $208.9 million, or 4.9% of total assets, at September 30, 2008, and $21.3 million, or 0.53% of total assets, at December 31, 2007.

In an effort to further preserve capital, in December of 2008 the Board of Directors voted to suspend the payment of the quarterly cash dividend, beginning in the first quarter 2009. Previously in July 2008, the Board of Directors decided to reduce the quarterly cash dividend to $0.06 per share, down from $0.18 in the previous quarter.

* * *

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Capital

Management constantly monitors the level of capital, considering, among other things, our present and anticipated needs, current market conditions and other relevant factors, which may necessitate changes in the level of capital. Total capital at December 31, 2008, was $352.0 million, compared to $443.7 million at September 30, 2008 and $459.6 million at December 31, 2007. Total tangible capital at December 31, 2008, was $351.2 million, compared to $365.8 million at September 30, 2008 and $381.5 million at December 31, 2007.

For the year ended December 31, 2008, we paid cash dividends totaling $22.4 million, compared to $29.0 million for the year ended December 31, 2007. For the third and fourth quarters of 2008, the Board of Directors declared a $0.06 per share quarterly cash dividend. This compares to quarterly cash dividends of $0.165 and $0.17 per share for the third and fourth quarters of 2007, respectively. The decision to reduce the quarterly cash dividend came as a result of our concern over the continuing deterioration in the housing market and the need to preserve capital. Beginning in the first quarter of 2009, the Board of Directors decided to suspend the payment of the quarterly cash dividend to further preserve capital.

Consolidated regulatory capital ratios as of December 31, 2008, were as follows:

	Tier I (Core) Capital	Tier 2 (Total) Capital	Leverage Capital
Actual as of December 31, 2008	9.64%	10.91%	8.62%
Regulatory minimum ratio for "well capitalized" purposes	6.00%	10.00%	5.00%

Review of Financial Condition

General

At December 31, 2008, total assets were $4.10 billion and deposits totaled $3.28 billion. This compares to total assets of $4.24 billion and deposits of $3.40 billion at September 30, 2008, and total assets of $4.00 billion and deposits of $2.94 billion at December 31, 2007. Net loans of $3.67 billion at December 31, 2008, reflect a decrease of 1.6% from September 30, 2008, and an increase of 3.0% from December 31, 2007.

Loans

At December 31, 2008, total loans, including loans held for resale, were $3.78 billion, compared to $3.83 billion at September 30, 2008, and $3.61 billion at December 31, 2007. The decrease in total loans on a linked quarter basis is attributable to a decrease in new loan originations, loan pay downs and an increase in charge-offs for the period. With few exceptions, we have suspended the origination of new real estate construction, land development and completed lot loans. New loan originations for the fourth quarter 2008, totaled $58.6

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million, compared to $175.6 million for the third quarter 2008, a decrease of $117.0 million, or 66.6%. For the fourth quarter 2007, new loan originations totaled $209.2 million, which was $150.6 million, or 72.0%, greater than the fourth quarter 2008.

The year over year increase in total loans is primarily attributable to the decrease in undisbursed commitments to lend. At December 31, 2008, total undisbursed commitments to lend were $484.4 million, compared to $873.2 million at December 31, 2007, a decrease of $388.8 million, or 44.5%. Total undisbursed commitments to lend were $650.8 million at September 30, 2008.

Allowance for Loan Losses

The total allowance for loan losses was $112.6 million, or 2.98%, of total loans outstanding at December 31, 2008, compared to $106.6 million, or 2.78%, at September 30, 2008, and $54.0 million, or 1.49%, at December 31, 2007. The allowance for loan losses, including the reclassified allocation for undisbursed loans of $2.1 million, would amount to a total allowance of $114.6 million, or 3.03%, of total loans outstanding as of December 31, 2008.

For the year ended December 31, 2008, the provision for loan losses increased $108.6 million, to $120.0 million, compared to $11.4 million for the year ended December 31, 2007. Net charge-offs increased $62.1 million, to $63.0 million in 2008, compared to $920 thousand in 2007.

Net charge-offs totaled $39.2 million, or 1.02% of average quarterly loans, for the quarter ended December 31, 2008. This compares to net charge-offs of $14.3 million, or 0.37%, and $594 thousand, or 0.02%, for the quarters ended September 30, 2008, and December 31, 2007, respectively.

* * *

Liquidity

We continue to closely monitor and manage our liquidity position understanding that this is of critical importance in today's tight market. Attracting and retaining customer deposits remains our primary source of liquidity. Management has the ability to access additional sources of liquidity, such as the sale of available for sale securities and additional borrowings from the FHLB. At December 31, 2008, we had $1.15 billion of total liquidity available. We have a policy that the minimum liquidity to total assets ratio remain at 12.5%. At December 31, 2008, liquidity to total assets was 28.0%.

35. On March 24, 2009, Frontier issued a press release entitled "Frontier Bank Signs Agreement with FDIC and State," which stated in part:

Frontier Financial Corporation, on behalf of its subsidiary Frontier Bank, announced today it has signed an agreement with the Federal Deposit Insurance Corporation (FDIC) and State of Washington Department of Financial Institutions (DFI). Under the agreement, called a Cease and Desist Order, Frontier agreed to

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changes in lending policies, administration and management. The order was the result of an examination conducted by the FDIC and DFI as of June 30, 2008.

Patrick M. Fahey, who was appointed Frontier's chairman and CEO in December 2008, said the bank had already begun working to address items cited in the examination and intends to fully comply with the terms of the agreement.

Frontier, like many banks that concentrated on residential construction and development lending, has been heavily impacted by the sharp downturn in the economy and the Northwest housing market. As a result, the bank increased its reserves for future loan losses significantly to a total of over $112 million at the end of 2008. Frontier did not originate any sub-prime mortgage loans or purchase investments backed by sub-prime mortgages.

Fahey said the agreement will not impact depositors. "With the recent increases in FDIC coverage limits, families can insure time deposit accounts up to many times the $250,000 insurance limit depending on the way the account ownership is set up. Both our NOW accounts and noninterest bearing checking accounts are insured without limit."

Frontier also agreed to achieve and maintain a Tier 1 capital level of 10% of its total assets. The bank's Tier 1 capital ratio at year end 2008 was 8.53% and risk based capital ratio was 10.55%, both above the regulatory minimums for well capitalized institutions. The Corporation has also been working with an investment advisor to identify new sources of capital.

Several steps have been taken to preserve capital, including selling assets and reducing expenses. Bank board meeting fees and the cash dividend were eliminated, and executive salaries were reduced. Other salaries have been frozen and a hiring freeze is in place.

The agreement also requires Frontier to strengthen its management, increase directors' participation in the oversight of the bank, and more closely supervise efforts to upgrade the loan portfolio. Fahey said these changes had already been made. In addition, Frontier has also created a new business banking division to diversify its loan portfolio and provide a more stable source of core deposits. A special assets group of 30 experienced employees was formed after the June 2008 examination to focus specifically on credit problems.

"While we are engaged in a serious effort to quickly resolve these issues, I want to emphasize our dedication to customer service remains unchanged," Fahey said.

36. On April 23, 2009, Frontier reported its first quarter 2009 financial results, in a release which stated in part:

Frontier Financial Corporation today announced results for the quarter ended March 31, 2009. For the three months ended March 31, 2009, the Corporation reported a net loss of $33.8 million, or ($0.72) per diluted share, compared to a net loss of $89.5 million, or ($1.90) per diluted share for the three months ended

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December 31, 2008, and net income of $15.5 million, or $0.33 per diluted share, for the three months ended March 31, 2008. Contributing to the first quarter 2009 net loss was a $58.0 million provision for loan losses. During the fourth quarter of 2008, the Corporation recognized a $77.1 million non-cash goodwill impairment charge and a $44.4 million provision for loan losses.

The first quarter 2009 results reflect continued pressure from an uncertain economy and the negative impact on the local housing market. The ratio of nonperforming assets has increased to 16.25% of total assets at March 31, 2009, up from 10.87% at December 31, 2008, and 0.97% a year ago. Because of this continued pressure, the provision for loan losses was $58.0 million for the three months ended March 31, 2009, compared to $44.4 million for the three months ended December 31, 2008, and $9.0 million for the three months ended March 31, 2008. Net charge-offs for the three months ended March 31, 2009, totaled $59.5 million, compared to $39.2 million and $3.0 million for the three months ended December 31, 2008 and March 31, 2008, respectively.

Despite these challenging times, the Board of Directors and management continue to take important steps to strengthen the Corporation. Management has been diligently working to reduce the concentration in real estate construction and land development loans, and on a linked quarter basis, successfully reduced these portfolios by $147.4 million, or 9.6%. In addition, undisbursed loan commitments related to these portfolios decreased $75.0 million, or 41.9%, for the same period resulting in a reduction of total commitments for real estate construction and land development of $222.4 million in the quarter. At March 31, 2009, deposits totaled $3.35 billion, an increase of $78.5 million, or 2.4%, compared to December 31, 2008.

* * *

Patrick M. Fahey, Chairman and CEO of Frontier Financial Corporation said, "While the economy in general and the housing market in particular remain our primary issue, we are seeing increasing signs of improvement. There was virtually no activity in sales of finished homes in other real estate or the portfolio at the beginning of the quarter. Purchase and sale agreements and closed sales have been slowly gaining momentum with some new activity daily. While it will still take time and continued improvement, we are pleased to see encouraging signs.

We have continued an aggressive approach to recognition of problem loans, and have been even more conservative this quarter by charging off the specific reserves in the allowance, with the added benefit of an income tax deduction and an enhancement of total risk-weighted capital."

As previously announced, on March 20, 2009, Frontier Bank ("Bank"), a wholly-owned subsidiary of Frontier Financial Corporation, entered into a Stipulation and Consent to the Issuance of an Order to Cease and Desist ("Consent Agreement") with the Federal Deposit Insurance Corporation ("FDIC") and the Washington Department of Financial Institutions ("DFI") resulting from a June 30, 2008 examination. The Corporation and the Bank are actively engaged

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in responding to the concerns raised in the FDIC order, and we believe we have already addressed many of the regulators' requirements.

Liquidity

We continue to closely monitor and manage our liquidity position, understanding that this is of critical importance in the current economic environment. Attracting and retaining customer deposits remains our primary source of liquidity. Total deposits increased $78.5 million on a linked quarter basis and $190.5 million year-over-year.

In an effort to increase on-balance sheet liquidity, we have focused on reducing our balance sheet, in particular, the real estate loan portfolio. For the first quarter of 2009, total loans decreased $119.2 million, compared to the fourth quarter of 2008, and $57.4 million compared to the first quarter of 2008. Additionally, we have increased our federal funds sold balances on a linked quarter and year-over-year basis.

Capital

Management constantly monitors the level of capital, considering, among other things, our present and anticipated needs, current market conditions and other relevant factors, which may necessitate changes in the level of capital. We are currently taking steps to strengthen our capital position. We continue to look at adding capital through a private equity investment and have engaged an investment banking firm to help facilitate this process. At March 31, 2009, our total risk-based capital and Tier 1 leverage capital ratios were 10.4% and 7.6%, respectively, and continue to be above the established minimum regulatory capital levels. Our tangible common equity ratio was 7.7% at March 31, 2009.

Review of Financial Condition

Loans

At March 31, 2009, total loans, including loans held for resale, were $3.66 billion, compared to $3.78 billion at December 31, 2008, and $3.72 billion at March 31, 2008.

The quarter-over-quarter and year-over-year decreases in total loans is attributable to decreases in new loan originations, loan pay downs and increased loan charge-offs. With few exceptions, we have suspended the origination of new real estate construction, land development and completed lot loans. New loan originations for the first quarter of 2009 totaled $23.3 million, compared to $74.2 million for the fourth quarter 2008, and $287.1 million for the first quarter of 2008.

Management continues to recognize loan quality deterioration on a timely basis and aggressively address work out strategies. Net charge-offs totaled $59.5 million for the three months ended March 31, 2009, compared to $39.2 million for the three months ended December 31, 2008, and $3.0 million for the three months

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> ended March 31, 2008. Due to the increased net charge-off's, the Corporation has adjusted its income tax provision to claim these losses as current tax deductions.
>
> *Allowance for Loan Losses*
>
> The total allowance for loan losses was $111.5 million, or 3.05%, of total loans outstanding at March 31, 2009, compared to $112.6 million, or 2.98%, at December 31, 2008, and $60.3 million, or 1.62%, at March 31, 2008. The allowance for loan losses, including the reclassified allocation for undisbursed loans of $1.6 million, would amount to a total allowance of $113.1 million, or 3.09%, of total loans outstanding at March 31, 2009.

37. On July 8, 2009, Frontier filed a Form 8-K with the SEC, announcing in part:

> On July 2, 2009, Frontier Financial Corporation ("FFC") entered into a Written Agreement (the "Agreement") with the Federal Reserve Bank of San Francisco (the "Reserve Bank").
>
> Under the terms of the Agreement, FFC has agreed to:
>
> - Refrain from declaring or paying any dividends without prior written consent of the FRB.
> - Refrain from making any distributions of interest or principal on subordinated debentures or trust preferred securities without prior written consent of the FRB.
> - Refrain from incurring, increasing or guaranteeing any debt without prior written consent of the FRB.
> - Implement a capital plan and maintain sufficient capital.
> - Comply with notice and approval requirements established by the FRB relating to the appointment of directors and senior executive officers as well as any change in the responsibility of any current senior executive officer, and is prohibited from paying or agreeing to pay indemnification and severance payments except under certain circumstances, and with the prior approval of the FRB.
> - Provide quarterly progress reports to the FRB.

38. On July 29, 2009, Frontier reported its second quarter 2009 financial results, in a release which stated in part:

> Frontier Financial Corporation today announced results for the three and six months ended June 30, 2009. For the three months ended June 30, 2009, the Corporation reported a net loss of $50.0 million, or ($1.06) per diluted share, compared to a net loss of $33.8 million, or ($0.72) per diluted share, for the three months ended March 31, 2009, and net income of $2.1 million, or $0.04 per diluted share, for the three months ended June 30, 2008. For the six months

ended June 30, 2009, the Corporation reported a net loss of $83.8 million, or ($1.78) per diluted share, compared to net income of $17.6 million, or $0.37 per diluted share, for the same period a year ago.

The results for the three and six months ended June 30, 2009, reflect continued pressure from an uncertain economy and the negative impact on the local housing market. The ratio of nonperforming assets has increased to 20.53% of total assets at June 30, 2009, up from 16.25% at March 31, 2009, and 2.97% a year ago. Because of this continued pressure, the provision for loan losses was $77.0 million for the three months ended June 30, 2009, compared to $58.0 million and $24.5 million for the three months ended March 31, 2009 and June 30, 2008, respectively. For the six months ended June 30, 2009, the provision for loan losses totaled $135.0 million, compared to $33.5 million for the same period in 2008. Net charge-offs for the three and six months ended June 30, 2009, totaled $90.2 million and $149.8 million, respectively, compared to $6.5 million and $9.5 million, respectively, for the same periods a year ago.

Despite these challenging times, the Board of Directors and management continue to take important steps to strengthen the Corporation. Management has been diligently working to reduce the concentration in real estate construction and land development loans, and has successfully reduced these portfolios by $916.0 million, or 37.1%, from June 30, 2008 to June 30, 2009, including undisbursed loan commitments, as defined by the FDIC.

As part of our ongoing strategy to reduce noninterest expense, the Board of Directors voted to suspend the Corporation's matching of employee 401(K) Plan contributions, effective May 1, 2009. This cost saving measure is expected to reduce noninterest expense by approximately $1.7 million annually. This is in addition to other previously announced expense reduction measures; including reductions to executive compensation, salary freezes and the elimination of performance bonuses and discretionary profit sharing contributions to the 401(K) Plan for the year ended December 31, 2008.

* * *

Patrick M. Fahey, Chairman and CEO of Frontier Financial Corporation said, "While economic conditions remain difficult, we have made progress in a number of areas as noted in this report. I am pleased with the efforts of our staff to maintain and build customer relationships, to control expenses and resolve problem loans. While we have reduced the concentration in acquisition, construction and development loans significantly from a year ago, this continues to be our primary challenge, despite signs of recovery in the housing markets."

As noted in our March 25, 2009, Form 8-K filing, Frontier Bank ("Bank") entered into a Stipulation and Consent to the Issuance of an Order to Cease and Desist ("FDIC Order") on March 20, 2009 with the Federal Deposit Insurance Corporation ("FDIC") and the Washington Department of Financial Institutions, Division of Banks ("DFI") resulting from a June 30, 2008 examination. In addition, on July 2, 2009, Frontier Financial Corporation entered into an agreement with the Federal Reserve Bank of San Francisco ("FRB") resulting from the same examination. The Corporation and the Bank have been actively

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engaged in responding to the concerns raised in the FDIC Order and FRB Agreement, and we believe we have already addressed all of the regulators' requirements, with the exception of increasing Tier 1 capital, in which efforts are currently underway.

Liquidity

We continue to closely monitor and manage our liquidity position, understanding that this is of critical importance in the current economic environment. Attracting and retaining customer deposits remains our primary source of liquidity. Noninterest bearing deposits increased $9.4 million, or 2.4%, from December 31, 2008 to June 30, 2009, and $15.6 million, or 4.0%, from a year ago.

In an effort to increase on-balance sheet liquidity, we have been focused on restructuring our balance sheet, and in particular, reducing the loan portfolio. For the first six months of 2009, total loans decreased $362.5 million, or 9.6%, compared to December 31, 2008. Year-over-year, total loans decreased $391.1 million, or 10.3%. Additionally, we have increased our federal funds sold balances to $289.9 million at June 30, 2009, an increase of $172.1 million from December 31, 2008, and $271.6 million from a year ago.

Capital

We are currently taking steps to strengthen our capital position. We continue to look at adding capital through a private equity investment and have engaged an investment banking firm to help facilitate this process. Emphasis has also been placed on shifting higher risk weighted assets into lower risk weighted categories for the purpose of calculating capital ratios.

At June 30, 2009, our total risk-based capital and Tier 1 leverage capital ratios were 9.42% and 6.74%, respectively, and continue to be above the established minimum regulatory capital levels. Our tangible common equity ratio was 6.74% at June 30, 2009.

Review of Financial Condition

Loans

At June 30, 2009, total loans, including loans held for resale, were $3.42 billion, compared to $3.78 billion at December 31, 2008, and $3.81 billion at June 30, 2008.

The decreases in total loans at June 30, 2009, compared to the year ended 2008 and a year ago, is attributable to decreases in new loan originations, loan pay downs and increased loan charge-offs. With few exceptions, we have suspended the origination of new real estate construction, land development and completed lot loans. New loan originations for the first six months of 2009 totaled $77.7 million, compared to $583.7 million for the same period in 2008.

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> Management continues to recognize loan quality deterioration on a timely basis and aggressively address work out strategies. Net charge-offs for the three and six months ended June 30, 2009, totaled $90.2 million and $149.8 million, respectively, compared to $6.5 million and $9.5 million, respectively, for the same periods a year ago. Due to the increased net chargeoff's, the Corporation has adjusted its income tax provision to claim these losses as current tax deductions.
>
> *Allowance for Loan Losses*
>
> The total allowance for loan losses was $98.6 million, or 2.89%, of total loans outstanding at June 30, 2009, compared to $112.6 million, or 2.98%, at December 31, 2008, and $78.7 million, or 2.07%, at June 30, 2008. The allowance for loan losses, including the reclassified allocation for undisbursed loans of $1.3 million, would amount to a total allowance of $99.9 million, or 2.92%, of total loans outstanding at June 30, 2009.

39. On July 31, 2009, Frontier announced that SP Acquisition Holdings, Inc. ("SPAH") had agreed to purchase the Company for $24.4 million in stock and warrants. Following the completion of the merger, SPAH would recapitalize Frontier.

40. On October 5, 2009, Frontier announced the deal with SPAH had collapsed.

41. On October 29, 2009, Frontier reported its third quarter 2009 financial results, in a release which stated in part:

> Frontier Financial Corporation today announced results for the three and nine months ended September 30, 2009. For the three months ended September 30, 2009, the Corporation reported a net loss of $141.1 million, or ($2.99) per diluted share, compared to a net loss of $50.0 million, or ($1.06) per diluted share, for the three months ended June 30, 2009, and net loss of $17.8 million, or ($0.38) per diluted share, for the three months ended September 30, 2008. For the nine months ended September 30, 2009, the Corporation reported a net loss of $224.9 million, or ($4.77) per diluted share, compared to a net loss of $221 thousand, or ($0.00) per diluted share, for the same period a year ago.
>
> As noted in our September 23, 2009, Form 8-K filing, we determined that, based on management's internal review, we expected to record an additional provision for loan losses of $140.0 million and loan charge-offs of $100.0 million in the third quarter of 2009. These adjustments were included in the pro forma financial information included in the Joint Proxy Statement/Prospectus for our proposed merger with SP Acquisition Holdings, Inc. ("SPAH"). Subsequent to this filing, however, we jointly announced with SPAH that we mutually agreed to terminate the Agreement and Plan of Merger, effective immediately, due to the fact that certain closing conditions contained in the merger agreement could not be met. The actual provision for loan losses and charge-offs totaled $140.0 million and $98.0 million, respectively, for the three months ended September 30, 2009.

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Patrick M. Fahey, Chairman and CEO of Frontier Financial Corporation said, "While we were disappointed our merger with SPAH was terminated, the number of banks able to raise capital since we entered into the agreement with SPAH has increased dramatically. Based on the numerous discussions with investors we have had since the termination of the merger, we are optimistic we will be successful in raising additional capital."

The provision for loan losses increased $63.0 million for the three months ended September 30, 2009, compared to the linked quarter, and $97.9 million, compared to the same period a year ago. For the nine months ended September 30, 2009 and 2008, the provision for loan losses totaled $275.0 million and $75.6 million, respectively. The allowance for loan losses, as a percentage of total loans, was 4.51%, 2.89% and 2.78%, at September 30, 2009, June 30, 2009 and September 30, 2008, respectively.

The rate of growth in the amount of nonperforming assets decreased for the third consecutive quarter. On a linked quarter basis, nonperforming assets increased $93.5 million to $912.3 million. That increase compares to $143.5 million in the second quarter 2009 and $229.2 million in the first quarter 2009. Rob Robinson, Chief Credit Officer said, "We continue to be aggressive at classifying problem loans into nonaccrual status and believe, based on current market conditions, we are at or near the bottom of this challenging housing market."

Despite these challenging times, the Board of Directors and management continue to take important steps to strengthen the Corporation. We continue to reduce our concentrations in real estate construction and land development loans and have successfully reduced these portfolios by $1.0 billion, or 43.4%, from September 30, 2008 to September 30, 2009, including undisbursed loan commitments, as defined by the FDIC.

Liquidity

We continue to closely monitor and manage our liquidity position, understanding that this is of critical importance in the current economic environment. Attracting and retaining customer deposits remains our primary source of liquidity. Noninterest bearing deposits increased $8.1 million, or 2.0%, from December 31, 2008 to September 30, 2009, and $26.3 million, or 7.0%, from a year ago.

During the third quarter 2009, we announced our continued participation in the Federal Deposit Insurance Corporation's ("FDIC") voluntary Transaction Account Guarantee ("TAG") portion of the Temporary Liquidity Guarantee Program through June 30, 2010. Under this program, noninterest bearing transaction accounts and qualified NOW checking accounts are fully guaranteed by the FDIC for an unlimited amount of coverage. The coverage under the TAG program is in addition to, and separate from, the coverage of $250,000 available under the FDIC's general deposit insurance protection.

In an effort to increase on-balance sheet liquidity, we have been focused on restructuring our balance sheet, and in particular, reducing the loan portfolio.

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For the nine months ended September 30, 2009, total loans decreased $627.7 million, or 16.6%, compared to December 31, 2008. Year-over-year, total loans decreased $681.0 million, or 17.8%. Additionally, we have increased our federal funds sold balances to $363.1 million at September 30, 2009, an increase of $245.3 million from December 31, 2008, and $232.7 million from a year ago, to maintain a strong liquidity position.

Capital

As previously announced, on October 5, 2009, the Corporation and SP Acquisition Holdings, Inc. ("SPAH") mutually agreed to terminate the Agreement and Plan of Merger, dated as of July 30, 2009, by and between SPAH and Frontier, as amended by Amendment No. 1 to Agreement and Plan of Merger, dated as of August 10, 2009, effective immediately, due to the fact that certain closing conditions contained in the merger agreement could not be met. Since the termination of the transaction, we have continued to seek private equity investors and have made numerous contacts with potential investors.

Review of Financial Condition

Loans

At September 30, 2009, total loans, including loans held for resale, were $3.15 billion, compared to $3.78 billion at December 31, 2008, and $3.83 billion at September 30, 2008.

The decreases in total loans at September 30, 2009, compared to the year ended 2008 and a year ago, is attributable to decreases in new loan originations, loan pay downs and increased loan charge-offs. With few exceptions, we have suspended the origination of new real estate construction, land development and completed lot loans. New loan originations for the first nine months of 2009 totaled $100.1 million, compared to $759.3 million for the same period in 2008, a decrease of $659.2 million, or 86.8%. For the third quarter 2009, new loan originations totaled $22.4 million, compared to $54.4 million for the second quarter 2009 and $175.6 million for the third quarter 2008.

Management continues to proactively manage credit quality and loan collections and address work out strategies. Net charge-offs for the three and nine months ended September 30, 2009, totaled $96.6 million and $246.3 million, respectively, compared to $14.3 million and $23.8 million, respectively, for the same periods a year ago.

Allowance for Loan Losses

The total allowance for loan losses was $142.2 million, or 4.51%, of total loans outstanding at September 30, 2009, compared to $112.6 million, or 2.98%, at December 31, 2008, and $106.6 million, or 2.78%, at September 30, 2008. The allowance for loan losses, including the reclassified allocation for undisbursed loans of $1.1 million, would amount to a total allowance of $143.3 million, or 4.55%, of total loans outstanding at September 30, 2009.

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42. On January 29, 2010, Frontier issued a press release entitled "Frontier Financial Corporation Announces Improved Operating Results for the Fourth Quarter 2009," which stated in part:

> Frontier Financial Corporation today announced results for the quarter and year ended December 31, 2009. For the three months ended December 31, 2009, the Corporation reported a net loss of $33.9 million, or ($7.19) per diluted share, compared to a net loss of $141.1 million, or ($29.93) per diluted share, for the three months ended September 30, 2009, and net loss of $89.5 million, or ($19.03) per diluted share, for the three months ended December 31, 2008. For the year ended December 31, 2009, the Corporation reported a net loss of $258.8 million, or ($54.91) per diluted share, compared to a net loss of $89.7, or ($19.10) per diluted share, a year ago. All results reflect the one-for-ten reverse stock split, which was effective November 24, 2009.
>
> * * *
>
> The results for the fourth quarter and year ended December 31, 2009, also reflect a $40.4 million and $89.2 million income tax benefit primarily related to newly enacted legislation that allows banks, such as Frontier Bank, that had not received government assistance in the form of TARP, to carryback losses incurred in 2008 or 2009 for a period of five years. We expect to receive an income tax refund of approximately $82.4 million in 2010.
>
> Despite these challenging times, the Board of Directors and management continue to take important steps to strengthen the Corporation. We continue to reduce our concentrations in real estate construction and land development loans and have successfully reduced these portfolios by $1.39 billion, or 57.3%, from June 30, 2008 to December 31, 2009, including undisbursed loan commitments, as defined by the FDIC.
>
> Patrick M. Fahey, Chairman and CEO of Frontier Financial Corporation said, "It is gratifying to see improving trends due to the tremendous efforts and sacrifices of our staff during these very difficult times. Our progress and improved liquidity are very much a result of the loyalty of our customers and the strong support of the communities we serve, for which we are very grateful."
>
> **Liquidity**
>
> We continue to closely monitor and manage our liquidity position, understanding that this is of critical importance in the current economic environment. At December 31, 2009, total liquidity, as a percentage of assets, was at its highest level for 2009, totaling 13.5%.
>
> In an effort to increase on-balance sheet liquidity, we have been focused on restructuring our balance sheet, and in particular, reducing the loan portfolio and increasing core deposits. As a result, we have increased our federal funds sold balances to $333.8 million at December 31, 2009, an increase of $216.1 million from a year ago, to maintain a strong liquidity position. For the quarter

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ended December 31, 2009, total loans decreased $281.5 million, or 8.9%, compared to the previous quarter. Year-over-year, total loans decreased $909.2 million, or 24.1%.

For the quarter ended December 31, 2009, total deposits decreased $103.1 million to $3.12 billion. During the quarter, $132.2 million of non-core brokered deposits matured, resulting in a net increase in deposits, excluding brokered deposits, of $29.1 million. Similarly, since March 31, 2009, we have reduced our brokered deposit balances by $367.3 million, resulting in a net increase in total deposits, excluding brokered deposits, of $136.1 million, over the past nine months.

Capital

On January 20, 2010, we held a special shareholder meeting in which shareholders approved an increase in the total number of shares of common stock that we are authorized to issue from 10 million to 200 million shares. The availability of these additional shares of common stock will allow us the capability and flexibility to issue new shares for a variety of purposes, including raising additional capital and increasing our regulatory capital ratios.

As previously announced, on October 5, 2009, the Corporation and SP Acquisition Holdings, Inc. ("SPAH") mutually agreed to terminate their Agreement and Plan of Merger, dated as of July 30, 2009, effective immediately, due to the fact that certain closing conditions contained in the merger agreement could not be met. Since the termination of the transaction, we have continued to seek out equity investors and have made numerous contacts with potential investors.

Review of Financial Condition

Loans

At December 31, 2009, total loans, including loans held for resale, were $2.87 billion, compared to $3.15 billion at September 30, 2009, and $3.78 billion a year ago.

The decreases in total loans at December 31, 2009, compared to the previous quarter and a year ago, are attributable to decreases in new loan originations, loan pay downs and increased loan charge-offs. With few exceptions, we have suspended the origination of new real estate construction, land development and completed lot loans. For the fourth quarter 2009, new loan originations totaled $26.2 million, compared to $22.4 million in the third quarter 2009, and $74.2 million in the fourth quarter 2008. New loan originations for the twelve months ended December 31, 2009, totaled $126.3 million, compared to $833.5 million for the same period a year ago, a decrease of $707.2 million, or 84.8%.

Management continues to proactively manage credit quality and loan collections and address workout strategies. Net chargeoffs for the three months ended December 31, 2009, totaled $91.0 million, compared to $96.6 million for

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> the three months ended September 30, 2009, and $39.2 for the three months ended December 31, 2008. Net charge-offs for the twelve months ended December 31, 2009 and 2008, totaled $337.3 million and $63.0 million, respectively.
>
> *Allowance for Loan Losses*
>
> The total allowance for loan losses was $121.3 million, or 4.23%, of total loans outstanding at December 31, 2009, compared to $142.2 million, or 4.51%, at September 30, 2009, and $112.6 million, or 2.98%, at December 31, 2008. The allowance for loan losses, including the reclassified allocation for undisbursed loans of $991 thousand would amount to a total allowance of $122.3 million, or 4.26%, of total loans outstanding at December 31, 2009.

43. On March 16, 2010, after the market closed, the Company issued a press release entitled "Frontier Financial Corporation Revises Results for the Fourth Quarter and Year Ended December 31, 2009," which stated in part:

> Frontier Financial Corporation today announced revised results for the quarter and year ended December 31, 2009. For the three months and year ended December 31, 2009, the Corporation reported revised net losses of $70.2 million, or ($14.89) per diluted share, and $295.1 million, or ($62.61) per diluted share, respectively. In our press release dated January 29, 2010, we originally reported a net loss of $33.9 million, or ($7.19) per diluted share, for the quarter ended December 31, 2009, and a net loss of $258.8 million, or ($54.91) per diluted share for the year ended December 31, 2009. The revised results for the quarter and year ended December 31, 2009, reflect an additional $30.0 million to the provision for loan losses, an additional $3.5 million valuation adjustment on other real estate owned and a $4.3 million (pre-tax) other-than-temporary impairment ("OTTI") loss on available for sale securities.
>
> Subsequent to year end and the issuance of our results for the quarter and year ended December 31, 2009, dated January 29, 2010, the Federal Deposit Insurance Corporation ("FDIC") concluded its visitation of Frontier Bank and determined that an additional provision for loan losses of $30.0 million was necessary to replenish the allowance for loan losses and an additional $3.5 million valuation adjustment was necessary to properly reflect the carrying value of other real estate owned at December 31, 2009. The FDIC, as a regular part of their examination process, periodically reviews our allowance for loan losses and has the authority to require us to recognize additions to the allowance for loan losses based on their judgment of information available to them at the time of their examination. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as conditions change.
>
> Additionally, we sold two available for sale equity securities, which were in unrealized loss positions at December 31, 2009, at a loss subsequent to year end. In accordance with U.S. generally accepted accounting principles, due to the close proximity of the sale to year end, these securities were deemed OTTI at December 31, 2009. Collectively, these adjustments reduced Frontier Bank's Tier 1 capital to $59.8 million, which resulted in a Tier 1 Leverage Capital ratio of

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> 1.65%, thus designating Frontier Bank as "critically undercapitalized" for purposes of Prompt Corrective Action ("PCA") as of December 31, 2009.
>
> Under the Federal Deposit Insurance Act's ("FDI Act") PCA capital requirements (12 U.S.C. § 1831o), depository institutions that are "critically undercapitalized", in addition to being subject to a number of additional restrictions, must be placed into conservatorship or receivership within 90 days of becoming critically undercapitalized, unless the institution's primary Federal regulatory authority (here, the FDIC) determines and documents that "other action" would better achieve the purposes of PCA. If Frontier Bank is placed into conservatorship or receivership, the Corporation would suffer a complete loss of the value of its ownership interest in Frontier Bank. These events raise substantial doubt about our ability to continue as a going concern.

44. Subsequently, Frontier filed its Form 12b-25, Notification of Late Filing, with the SEC, stating in part:

> We are unable to timely file our Report on Form 10-K for the fiscal year ended December 31, 2009 ("Form 10-K") without unreasonable effort or expense for the reason described below.
>
> We and our independent registered public accounting firm are in the process of finalizing the financial statement review and audit and will not be able to complete the review and audit within the prescribed time period without unreasonable effort and expense. We required more time than anticipated to complete our closing process, which has delayed the completion of the audit. We intend to file our Form 10-K on or before the 15th calendar day following the prescribed due date.

45. On this news, Frontier's stock dropped $1.35 per share to close at $2.89 per share on March 17, 2009, a one-day decline of nearly 32%, on volume of 710,400 shares, and over 98% from its Class Period High.

46. The true facts, which were known by the defendants but concealed from the investing public during the Class Period, were as follows:

(a) Defendants failed to properly account for Frontier's real estate loans and construction and land development loans, failing to reflect impairment in the loans;

(b) Frontier had not adequately reserved for loan losses such that its financial statements were presented in violation of GAAP;

(c) Defendants failed to maintain proper internal controls related to Frontier's accounting for its loan loss reserves;

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(d) Frontier had not adequately reserved for loan losses such that its Tier 1 capital was presented in violation of banking regulations; and

(e) The Company's capital base was not adequate enough to withstand the significant deterioration in the real estate markets and, as a result, Frontier's Tier 1 capital would fall to the level where the Company would be designated as "critically undercapitalized" under banking regulations, raising substantial doubts about Frontier's ability to continue as a going concern.

47. As a result of defendants' false statements, Frontier's stock price traded at inflated levels during the Class Period. However, after the above revelations seeped into the market, the Company's shares were hammered by massive sales, sending them down 98% from their Class Period high.

LOSS CAUSATION/ECONOMIC LOSS

48. During the Class Period, as detailed herein, the defendants made false and misleading statements and engaged in a scheme to deceive the market and a course of conduct that artificially inflated the price of Frontier common stock and operated as a fraud or deceit on Class Period purchasers of Frontier stock by misrepresenting the Company's business and prospects. Thus, instead of truthfully disclosing during the Class Period that Frontier's business was not as healthy as represented, defendants falsely concealed the extent of its credit impairment on its land development and construction loan portfolios and the threat to its entire business from its failure to properly account for its loan loss reserves. Later, when the defendants' prior misrepresentations and fraudulent conduct became apparent to the market, the price of Frontier common stock fell precipitously, as the prior artificial inflation came out of the price over time. As a result of their purchases of Frontier stock during the Class Period, plaintiff and other members of the Class suffered economic loss, *i.e.*, damages, under the federal securities laws.

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COUNT I

For Violation of §10(b) of the 1934 Act and Rule 10b-5 Against All Defendants

49. Plaintiff incorporates ¶¶1-48 by reference.

50. During the Class Period, defendants disseminated or approved the false statements specified above, which they knew or deliberately disregarded were misleading in that they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

51. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

(a) employed devices, schemes and artifices to defraud;

(b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or

(c) engaged in acts, practices and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of Frontier common stock during the Class Period.

52. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Frontier common stock. Plaintiff and the Class would not have purchased Frontier common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

COUNT II

For Violation of §20(a) of the 1934 Act Against Frontier and the Individual Defendants

53. Plaintiff incorporates ¶¶1-52 by reference.

54. The Individual Defendants acted as controlling persons of Frontier within the meaning of §20(a) of the 1934 Act. By reason of their positions with the Company, and their

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ownership of Frontier stock, the Individual Defendants had the power and authority to cause Frontier to engage in the wrongful conduct complained of herein. Frontier controlled the Individual Defendants and all of its employees. By reason of such conduct, defendants are liable pursuant to §20(a) of the 1934 Act.

PRAYER FOR RELIEF

WHEREFORE, plaintiff prays for judgment as follows:

A. Declaring this action to be a proper class action pursuant to Fed. R. Civ. P. 23;

B. Awarding plaintiff and the members of the Class damages, including interest;

C. Awarding plaintiff reasonable costs and attorneys' fees; and

D. Awarding such equitable/injunctive or other relief as the Court may deem just and proper.

JURY DEMAND

Plaintiff demands a trial by jury.

Dated: April 15, 2010

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CERTIFICATION OF NAMED PLAINTIFF
PURSUANT TO FEDERAL SECURITIES LAWS

The undersigned declares, as to the claims asserted under the federal securities laws, that:

1. Plaintiff has reviewed the complaint and authorized its filing.

2. Plaintiff did not purchase and/or acquire the security that is the subject of this action at the direction of Plaintiff's counsel or in order to participate in any private action under the federal securities laws.

3. Plaintiff is willing to serve as a representative party on behalf of the class, including providing testimony at deposition and trial, if necessary. I understand that this is not a claim form, and that my ability to share in any recovery as a member of the class is not dependent upon execution of this Plaintiff Certification.

4. Plaintiff's transactions in the security that is the subject of this action during the Class Period are as follows:

Purchases:

Name of Company	Date(s) Purchased	# Shares Purchased	Cost
FTBK	9/24/2009	17,780 shares	$20,343.65

Sales:

Name of Company	Date(s) Sold	# Shares Sold	Proceeds
FTBK	9/29/2009	122	135.46

5. During the three (3) years prior to the date of this certification, Plaintiff has not sought to serve or served as a class representative in an action filed under the federal securities laws except for the following (if any):

6. Plaintiff will not accept any payment for serving as a representative party on behalf

of the class beyond Plaintiff's pro rata share of any recovery, except such reasonable costs and expenses (including lost wages) directly relating to the representation of the class as ordered or approved by the court.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 14 day of April, 2010 in Stamford, Connecticut
City State

(Signature) X